

Housing



2004

Continuing sharp increases in home prices and lack of income growth made housing much less affordable.

Housing

Housing Construction

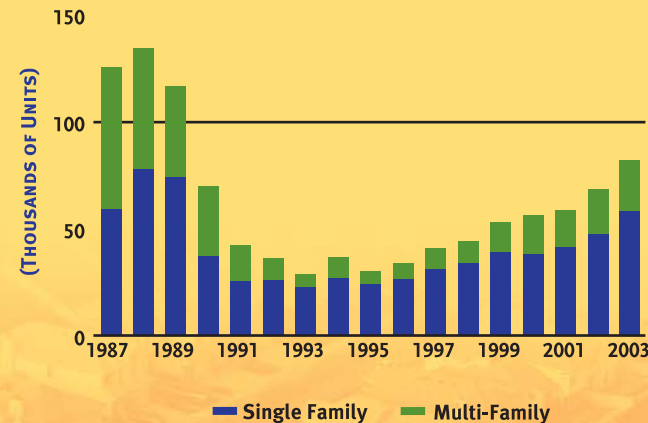
WHY IS THIS IMPORTANT?

The magnitude of housing construction, population growth, and new households are major determinants of housing prices. Different geographical distributions of new housing result in different needs for support infrastructure and services. The residential construction industry is also an important source of employment and corporate profit in the region.

HOW ARE WE DOING?

In 2003, the region experienced the largest number of residential building permits issued (78,300 units) as well as the largest increase (10,000 units or 15 percent) in a one year period since 1989 (Figure 30). Since 1995, the number of permits issued has been rising steadily, almost doubling the corresponding figure just six years ago.

Figure 30
Residential Building Permit Activity



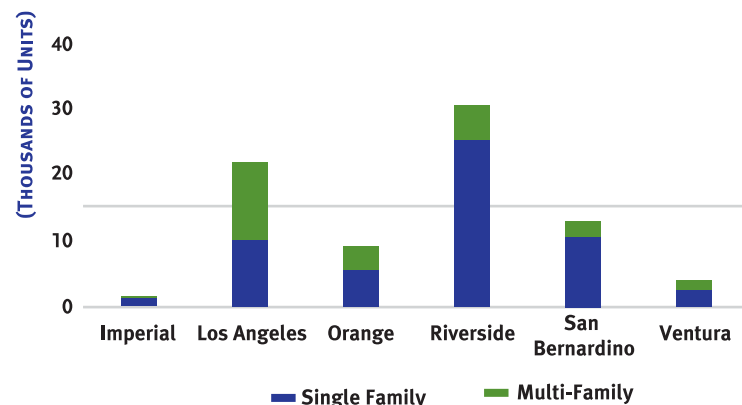
Source: Construction Industry Research Board



Despite the continuous increase of permit activities in the past three years, housing construction continued to lag behind population growth. For example, between 2000 and 2003, population in the region increased by almost 1 million.¹ However, during the same period, just over 200,000 building permits were issued.

Within the region, the Inland Empire counties accounted for about 55 percent of the total permits issued in 2003. In particular, Riverside County led among the six counties in both the numbers of permits issued (30,300) as well as the rate of increase in permits issued, up 34 percent from the previous year. In 2003, building permit increases occurred in every county in the region except Orange County.

Figure 31
Residential Building Permits by
Housing Types, 2003

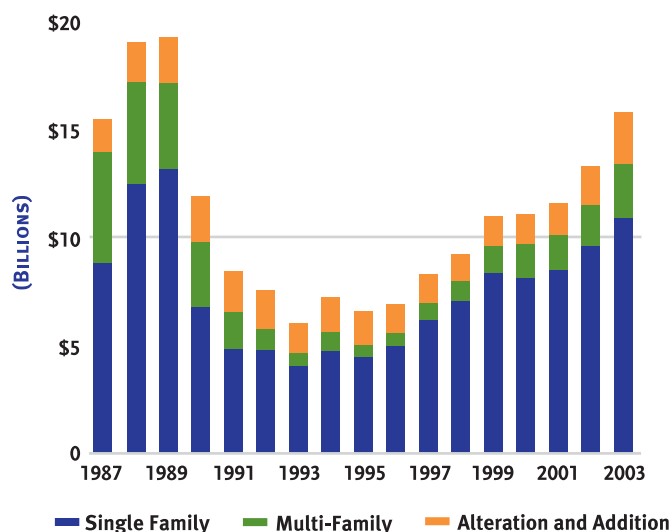


Source: Construction Industry Research Board

Among the total permits issued in 2003, only about 30 percent were for multi-family housing, growth of which has been quite consistent over the past four years. *However, within the region, there continued to be significant differences between the coastal and inland counties with respect to the share of multi-family housing permits.* In 2003, 52 percent of the permits in Los Angeles County were for multi-family housing while over 40 percent in Orange County were for multi-family housing (Figure 31). In Ventura County, the share of multi-family housing permits was 36 percent, a significant increase from the 14 percent share in the previous two years. In the remaining three inland counties, about 80 to 85 percent of the total permits were for single-family housing construction.

Total valuation of permits in 2003 reached over \$15.5 billion, with the largest annual increase of \$2.3 billion (or 17 percent) since 1987 (Figure 32). *While the housing construction industry in the region almost collapsed during the recession from 1990 to 1993, it has been serving as an important stabilizing force to the regional economy since the 2001 recession.* From 2002 to 2003, while the valuation of multi-family permits more than doubled, the valuation of permits for alteration and additions almost tripled.

Figure 32
Valuation of Residential Building Permits



Source: Construction Industry Research Board

Homeownership

WHY IS THIS IMPORTANT?

Owning one's home has long been considered an important part of the American Dream. The equity generated from homeownership represents almost 45 percent of total household wealth.² Higher homeownership rates also help to improve neighborhood stability.

HOW ARE WE DOING?

In 2003, homeownership rates increased at both the national and state level while remaining unchanged in the SCAG region.

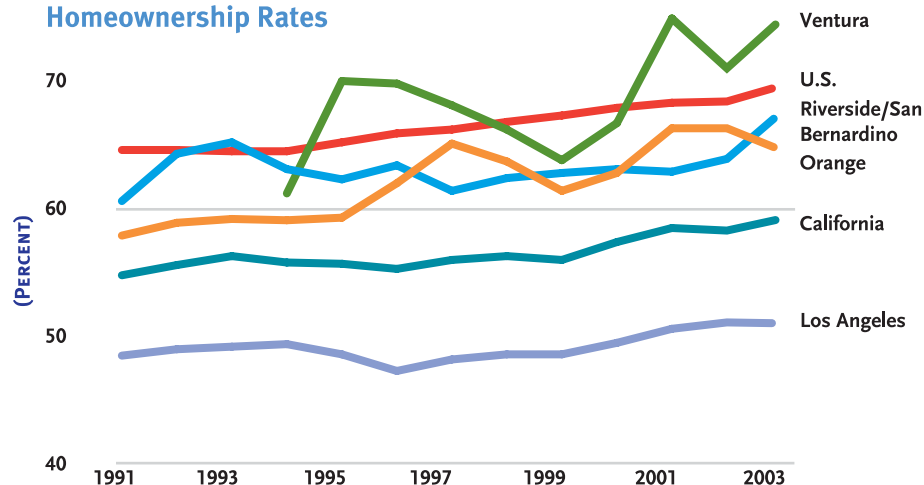
Nationally, the homeownership rate increased slightly from 67.9 percent in 2002 to 68.3 percent in 2003. The homeownership rate in California increased from 57.7 percent to 58.9 percent during the same period. In the SCAG region, however, the homeownership rate in 2003 remained at about 56 percent (Figure 33).

Within the region, Ventura County and the Inland Empire experienced significant increases in homeownership rates. In 2003, Ventura County's homeownership rate increased by 3 percent to 73 percent, the highest in the region. It is also the only county in the region with a rate higher than the nation's. Homeownership in Riverside/San Bernardino counties also increased, from 63 percent to 67 percent. In contrast to the significant expansion of homeownership in these three counties, Orange County experienced a decrease in the homeownership rate from 65.5 percent to 63.4 percent. Slowdown in housing construction and relatively higher housing prices contributed to the decline in homeownership rate in Orange County. Finally, the homeownership rate in Los Angeles County declined very slightly in 2003. At 50 percent, Los Angeles County continued to be the only county in the region with a homeownership rate lower than that of the state and the nation.

Among the nine largest metropolitan regions in the nation, Detroit and Philadelphia had homeownership rates over 70 percent, higher than the national average.³ Only three regions had rates below 60 percent, including San Francisco, the SCAG region and New York.

Figure 33

Homeownership Rates



Source: U.S. Census Bureau. Ventura County annual data started from 1994. Imperial County's homeownership rate was 58 percent in both 1990 and 2000, other annual data unavailable.

Housing Affordability

WHY IS THIS IMPORTANT?

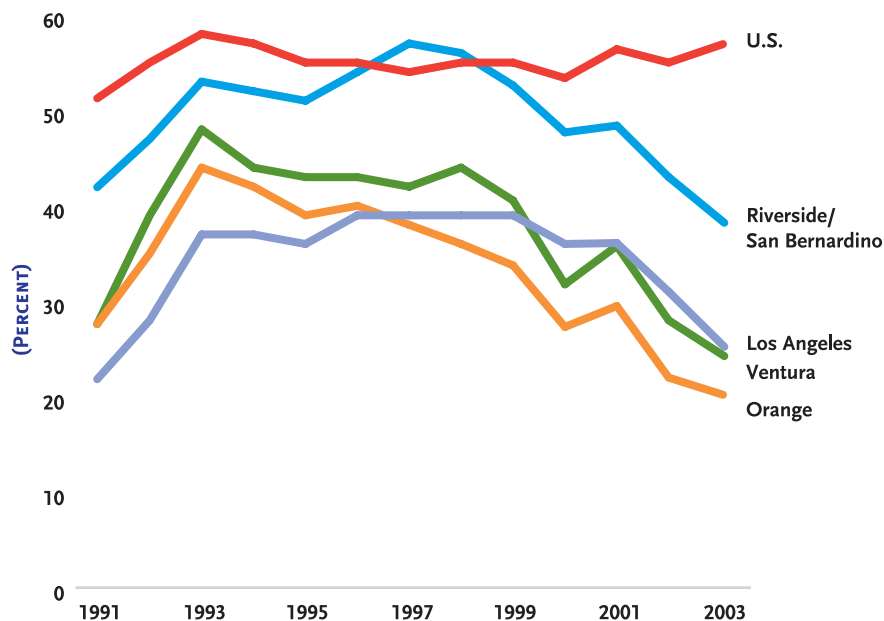
Housing affordability provides an indication of the level of financial burden of housing expenses. Housing constitutes the largest share of household expenditures among all consumption items. When a household spends too much on housing, there is not enough left to meet other household needs, such as transportation, healthcare or education. Housing affordability also affects decisions as to where to live. Hence, housing affordability is an indicator reflecting the fundamental well-being of households. In addition, it also influences business decisions to locate or expand in the region. Lack of affordable housing will result in a weakening of our region's attractiveness and competitiveness.

HOW ARE WE DOING?

Housing affordability can be measured by the share of households that can afford to purchase a median-priced house or by the share of household income spent on housing. *By both measures, housing affordability continued a declining path throughout Southern California in 2003.* In Los Angeles County, the share of households able to afford a median-priced home dropped from 31 percent in 2002 to 26 percent in 2003. In Orange County, only one fifth of the households could afford a median-priced home, the lowest since 1990. Though the Inland Empire counties continued to have higher housing affordability than the coastal counties, the corresponding share also dropped from 43 to 38 percent during the same period (Figure 34). *In 2003, every county had lower housing affordability than the national average and the gaps have continued to widen since 1997.* While close to 58 percent of the nation's households could afford a median-priced house in 2002, less than a third of the region's households could achieve the same.

Housing affordability is generally impacted by household income, home prices and mortgage interest rates (Figure 35). *During 2003, continuing sharp increases in home prices and lack of growth in household incomes offset gains from lower interest rates, making housing less affordable.* There has been a lack of growth in median household income in the region since 2000, after a slight decline during the 1990s (Figure 36). However, average home prices in the region reached historical peaks in 2003 in almost every county. Since 1998, after recovering from the losses during the previous recession, average home prices had increased between 6 and 7 percent per year up to 2001.

Figure 34
Housing Affordability
 (Percent of Households Who Can Afford to Purchase a Median-Priced Home)



*Data for Imperial County is not available. Source: California Association of Realtors.

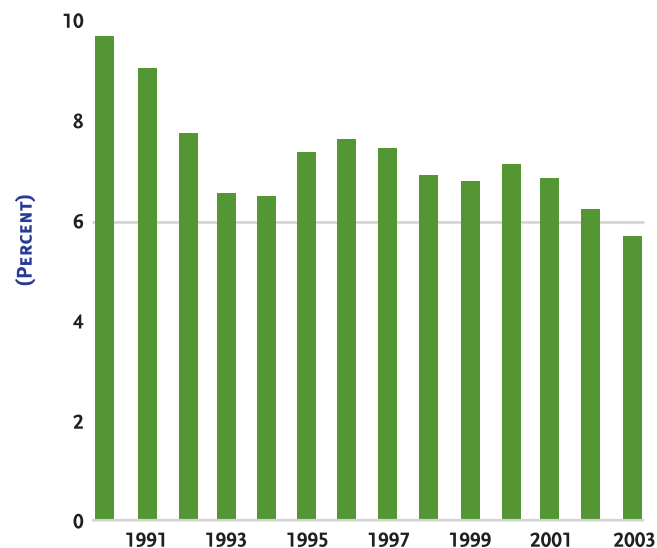
Between 2001 and 2003, partly because of lower mortgage interest rates and significant population growth, average home prices increased by about 30 percent in coastal counties and 25 percent in the Inland Empire. For example, average price for new and existing homes in Orange County rose from \$330,000 in 2001 to \$430,000 in 2003, an increase of \$100,000 in just two years. During the same period, average home prices increased from \$200,000 to \$250,000 in Riverside County (Figure 37).

In 2003, close to 43 percent of owner households (with a mortgage) in the region had monthly costs at or greater than

30 percent of household incomes, up from 39 percent in 2000 (Figure 38). At the national level, only 30 percent of owner households had monthly costs at or greater than 30 percent of household incomes. In 2003, the SCAG region continued to have the highest homeowner housing cost burden among the nine largest metropolitan regions in the nation.

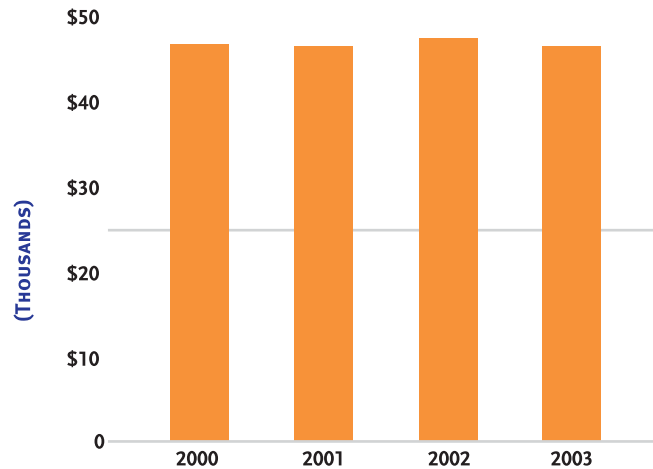
Between 2000 and 2003, average rents in the region increased generally between 2 to 4 percent per year after adjusting for inflation (Figure 39). In 2003, average monthly rents were about \$1,300 in the coastal counties and just below \$1,000 in the Inland Empire. With no growth in household income, rental cost burden has continued to rise.

Figure 35
Average Mortgage Rate



Source: Real Estate Research Council of Southern California

Figure 36
Median Household Income*
 (2003 Dollars)

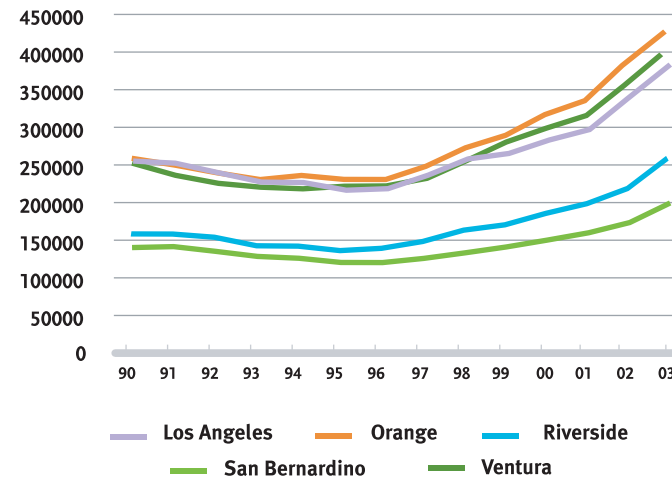


* U.S. Census Bureau determined that, in the SCAG Region, median household income differences among the three years above were not statistically significant considering sample size.

Source: U.S. Census Bureau

In 2003, among the approximately 8 million renters in the region, close to 53 percent, or more than 4.2 million renters, spent 30 percent or more of their incomes on rent (Figure 40). Since 2000, rental cost burden has been increasing at the regional, state and national levels.

Figure 37
Average Home Price
 (New and Existing in Current Dollars)



Source: Real Estate Research Council of Southern California

Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the highest percentage of rental households with monthly rent at or greater than 30 percent of household income. Following the SCAG region was the San Francisco Bay Area, with close to 47 percent of renters spending 30 percent or more of their incomes on rent. In addition, the state of California had the highest median rent among all the states in 2003. Hence, rental housing is an important public policy issue at the regional as well as the state level.

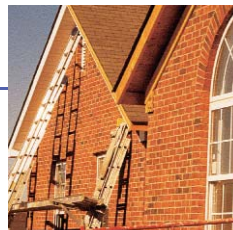
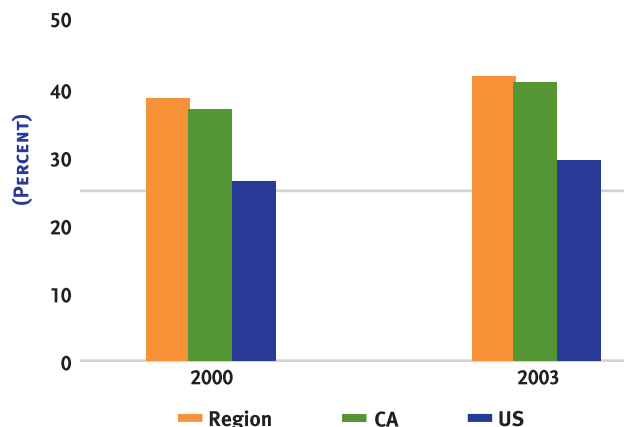


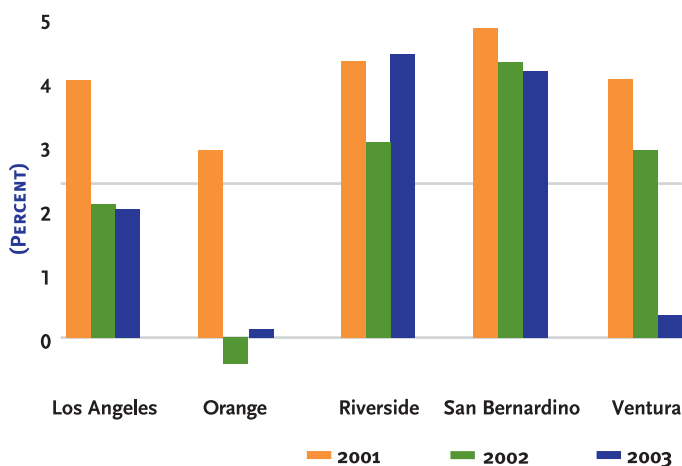
Figure 38
Housing Cost Burden

(Homeowner Households with Cost At Least 30 Percent of Household Income)



Source: U.S. Census Bureau

Figure 39
Average Monthly Rent
(Change from Previous Year)

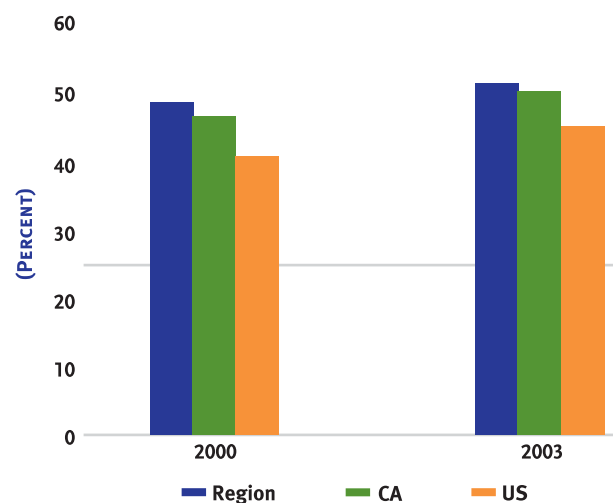


* With inflation adjustment

Source: Real Estate Research Council of Southern California

Figure 40
Rental Cost Burden

(Renters Paying 30 Percent or More of Household Income on Rent)



Source: U.S. Census Bureau

The extraordinary high housing cost burdens not only impact the well-being of residents but also discourage business decisions to locate or expand in the region. Lack of affordable housing remains a serious challenge to the region's long-term economic growth.

Housing Crowding

WHY IS THIS IMPORTANT?

Housing crowding measures the percent of housing units with more than one person per room, including all rooms except bathrooms. It provides indication of housing shortages and housing affordability. Lack of affordable housing will lead to higher levels of housing crowding.

HOW ARE WE DOING?

Based on the 2000 Census, the region had the highest rate (20 percent) of crowded housing among the nine largest metropolitan regions, significantly above the second highest of 11 percent in the Bay Area.⁴ Between 2000 and 2003, the share of crowded housing in the SCAG region was reduced by about 1.5 percent. Within the region, Los Angeles County continued to have the highest rate while Orange and Ventura counties had the lowest.

